



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
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JUDI E. THOMAS

July 1, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **LUVLEE'S RESIDENTIAL CARE, INCORPORATED, - A GROUP HOME
FOSTER CARE CONTRACT PROVIDER - FISCAL REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Luvlee's Residential Care, Incorporated, (LRC or Agency), from January 1 to December 31, 2009. LRC is licensed to operate two group homes (GH), each with a resident capacity of six children. LRC homes are located in the Fifth Supervisorial District and San Bernardino County.

DCFS and the Probation Department (Probation) contract with LRC to care for foster children placed in the Agency's homes. DCFS paid LRC \$4,941 per child per month, based on a rate determined by the California Department of Social Services. The rate increased to \$5,490 per child per month, effective December 1, 2009, and increased again to \$7,274 per child per month, effective December 14, 2009. During calendar year 2009, DCFS paid the Agency a total of \$737,063 in GH foster care funds.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable LRC to begin taking corrective action as soon as possible, we discussed the findings and recommendations from our review with Agency management at the end of our review.

Summary of Findings

We identified \$204 in unallowable expenditures and \$1,928 in unsupported/inadequately supported expenditures.

LRC also needs to strengthen its internal controls over its accounting and disbursements, bank deposits and reconciliations, payroll and personnel records, reporting independent contractor income, and fixed assets. In addition, LRC needs to revise the Semi-Annual Expenditure Reports for calendar year 2009, and ensure the year-to-date amounts match the expenses on the Agency's 2009 audited financial statements. Details of our findings are discussed in Attachment I.

We recommend that DCFS resolve the questioned costs and collect any disallowed amounts. DCFS should also ensure that LRC management takes appropriate action to address the recommendations in this report, and monitor to ensure the actions result in permanent changes.

Review of Report

We discussed our report with LRC management and DCFS on January 11, 2011. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Board of Supervisors
July 1, 2011
Page 3

We thank LRC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Jackie Contreras, Ph.D., Acting Director, DCFS
Donald H. Blevins, Chief Probation Officer
Sean Hardge, Executive Director, Luvlee's Residential Care, Incorporated
Board of Directors, Luvlee's Residential Care, Incorporated
Cora Dixon, Bureau Chief, Foster Care Audit Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Luvlee's Residential Care, Incorporated
Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES

We identified \$204 in unallowable expenditures and \$1,928 in unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Applicable Regulations and Guidelines

LRC is required to operate its group home (GH) program in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

We identified \$204 in unallowable expenditures for credit card late fees and finance charges, and a non-sufficient fund (NSF) fee from the Agency's bank. Circular A-122 Sections 16 and 23 indicate that penalties and interest expense are unallowable expenditures.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other supporting documents, and that unsupported expenditures will be disallowed upon audit.

We identified \$1,928 in inadequately supported expenditures for credit card charges, clothing purchases and payments to an employee. The Agency provided cancelled checks and credit card statements, but no receipts, or the receipts provided were inadequate to substantiate that the expenditures were program related.

Recommendations

1. DCFS management resolve the \$2,132 (\$204 + \$1,928) in questioned costs and collect any disallowed amounts.

LRC management:

2. Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.
3. Consistently maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts and invoices.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We also noted some contract compliance issues and internal control weaknesses. DCFS should ensure that LRC management takes action to address each of the contract compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursement Procedures

Proper disbursement procedures require a second signature from someone independent of the transaction, and at a higher level than the first check signer, to verify the appropriateness of the expense. We noted that the payee on 23 checks, totaling \$48,181, also signed the checks.

Recommendation

4. LRC management require a second signature on all checks where the payee and check signer are the same employee.

Payroll / Personnel Controls

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period, and all timecards or time reports must be signed by the employee and the supervisor to certify the accuracy of the reported time.

We reviewed 12 employee personnel files and payroll records, and noted the following:

- None of the personnel files contained the employees' current authorized salary rates. However, we determined the employees' salaries were reasonable based on the Child Welfare League of America (CWLA) Salary Study.

- One employee's timecard was not signed by the supervisor.

Recommendations**LRC management:**

5. **Ensure personnel files contain current salary rates approved by management.**
6. **Ensure all timecards are signed by a supervisor to certify the accuracy of the reported time.**

Independent Contractors

A-C Handbook Section A.2.6 requires contractors to comply with federal and State requirements for filing 1099 (Miscellaneous Income) Forms for independent contractors.

We reviewed payments to two contractors, and noted that LRC did not issue one contractor a 1099. LRC management should ensure that all payments to independent contractors are reported to the taxing authorities.

Recommendation

7. **LRC management ensure all payments to independent contractors are reported to the federal and State taxing authorities.**

Bank Reconciliations

A-C Handbook Section B.1.4 requires bank reconciliations be prepared within 30 days of the bank statement date, and reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We reviewed the Agency's monthly bank reconciliations for two accounts (general and payroll), and noted that none of the bank reconciliations were signed by the preparer or reviewer.

Recommendation

8. **LRC management ensure monthly bank reconciliations are signed by the preparer and reviewer.**

Untimely Deposits

A-C Handbook Section B.1.2 states that cash receipts totaling \$500 or more shall be deposited within one day of receipt. Collections of less than \$500 may be deposited weekly, or when the total reaches \$500, whichever occurs first.

We noted that LRC received 17 Los Angeles County warrants, totaling \$17,313, that were deposited ten or more days after the issue date. Six were deposited within 14 days of the issue date, four were deposited 15 days after the issue date, another warrant was deposited 17 days after the issue date, and a sixth warrant was deposited 85 days after the issue date. LRC management should consider having its County payments electronically deposited directly into the Agency's bank account.

Recommendation

9. **LRC management ensure that Los Angeles County warrants are deposited timely, and consider having its County payments electronically deposited directly into the Agency's bank account.**

Fixed Assets

A-C Handbook Section B.4.2 requires agencies to maintain a current listing of fixed assets, including the detailed item description, serial number, date of purchase, acquisition cost, and source(s) of funds. In addition, agencies should conduct an inventory of all fixed assets at least annually to ensure that all fixed assets are accounted for, and maintained in proper working order.

LRC did not maintain a fixed assets listing. In addition, the Agency does not conduct an inventory of its fixed assets at least annually.

Recommendations**LRC management**

10. **Prepare a fixed assets listing that includes the detailed item description, serial number, date of purchase, acquisition cost, and source(s) of funds.**
11. **Conduct an inventory of fixed assets to ensure that all fixed assets are accounted for at least annually.**

Semi-Annual Expenditure Reports

GH Contract Section 16.4 requires agencies to prepare and submit Semi-Annual Expenditure Reports to DCFS within 60 days after the end of each semi-annual reporting period.

LRC provided copies of the Semi-Annual Expenditure Reports (SAER) for calendar year 2009 that were submitted to DCFS. We noted some minor variances between the SAER and the Agency's audited financial statements for the period ended December 31, 2009.

LRC should revise the July 1, 2009 through December 31, 2009 SAER YTD amounts to agree with the Agency's audited financial statements and resubmit the Report to DCFS.

Recommendation

12. LRC management revise the year-to-date amounts on the July 1, 2009 through December 31, 2009 Semi-Annual Expenditure Report and resubmit the Report to DCFS.



ANTONIA JIMÉNEZ
Acting Director

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

425 Shatto Place, Los Angeles, California 90020
(213) 351-6602

Attachment II

February 24, 2011

Sean Hardge, Executive Director
Luvlee's Residential Care, Incorporated
9110 Independence Ave
Chattsworth, CA 91311

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

Dear Mr. Hardge:

**AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON LUVLEE'S RESIDENTIAL CARE,
INCORPORATED – A GROUP HOME FOSTER CARE CONTRACTOR**

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of January 1, through December 31, 2009. The FCAP fully addresses the audit report 11 recommendations (see Attachment). In addition, the one recommendation directed to DCFS was fully addressed.

DCFS requires that Luvlee's Residential Care, Incorporated, as agreed, submit a check drawn on non-foster care funds in the total amount of **\$2,132.00**. Please make your check payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

The Department requires that you identify the source of the funds from which payment will be made.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

A handwritten signature in cursive script that reads "Latisha Thompson".

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachment

- c: Mike McWatters, Chief Audit Division (via electronic mail only)
- Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

ATTACHMENT

FISCAL REVIEW OF LUVLEE'S RESIDENTIAL CARE, INCORPORATED – A GROUP HOME FOSTER CARE CONTRACTOR

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP dated February 23, 2011, submitted by Luvlee's Residential Care, Incorporated, status of each recommendation is summarized as follows:

- 11 Recommendations (1 - 11) were fully addressed.
- Recommendations () were partially addressed.
- 1 Recommendation (1) directed to the Department was addressed.

Recommendation Status

1. **DCFS management resolves \$2,132 (\$204 + \$1,928) in questioned costs and collect any disallowed amounts.**

Agency Proposed FCAP: *Luvlee's Management will repay the \$204 in unallowable costs and the \$1,924 in Auditor-Controller identified unsupported/inadequately supported costs for a total of \$2,132.00. Payment will be a one-time payment paid in full by March 1, 2011.*

DCFS Response: DCFS accepts the agency's response. DCFS requires that Luvlee's Residential Care, Incorporated, as agreed, submit a check drawn on non-foster care funds **in the amount of \$2,132.00**. The Department requires that you identify the source of the funds from which payments will be made. Please make your checks payable to **DCFS Cashier** and mail to:

Latisha Thompson, ASM III
Department of Children and Family Services
425 Shatto Place Rm. 304
Los Angeles, Ca. 90020

2. **Luvlee's management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**
-

Agency Proposed FCAP: *Luvlee's management will ensure that foster care funds are used for allowable expenditures by implementing the attached accounting policies and procedures manual to carry out the purpose and activities of Luvlee's Residential Care, Inc.*

DCFS Response DCFS accepts the agency's response.

3. **Luvlee's management maintains adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Agency Proposed FCAP: *Luvlee's management will ensure all agency expenditures are supported by original invoices and store receipts.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

4. **Luvlee's management requires a second signature on all checks where the payee and the check signer is the same employee.**

Agency Proposed FCAP: *Effective immediately Luvlee's management will require two signatures on all checks when the payee and check signer is the same employee.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

5. **Luvlee's management ensures personnel files contain current salary rates approved by management.**

Agency Proposed FCAP: *Effective immediately, Luvlee's management will ensure all personnel files contain current salary rates approved by management in accordance with the Auditor-Controller Group Home Contract Accounting and Administration Handbook.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. **Luvlee's management ensures all timecards are signed by a supervisor to certify the accuracy of the reported time.**

Agency Proposed FCAP: *All timecards or time reports will be signed by the employee and supervisor to certify the accuracy of the reported time. The office manager will ensure proper authorization prior to processing payroll.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

7. **Luvlee's management ensures all payments to independent contractors are reported to the federal and State taxing authorities.**

Agency Proposed FCAP: *All independent contractors must submit an IRS Form W-9 Request for Tax Payer Identification and Certification or equivalent to the Accounting Department, prior to payment. Form 1099's will be mailed to all current independent contractors and reported to the federal and state taxing authorities.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

8. **Luvlee's management ensures monthly bank reconciliations are signed by the preparer and reviewer.**

Agency Proposed FCAP: *All bank statements will be received and reconciled by someone with no cash handling or check writing functions. Monthly bank reconciliations will be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Bank reconciliations will be signed by both the preparer and the reviewer.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

9. **Luvlee's management ensures that Los Angeles County warrants are deposited timely, and consider having its County payments electronically deposited directly into the Agency's bank account.**

Agency Proposed FCAP: *All checks will be endorsed upon receipt. County warrants totaling \$500 or more will be deposited within 24 hours of receipt. Warrants of \$500 or less will be secured and deposited weekly or when total reaches \$500, whichever occurs first.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

10. Luvlee's management prepare a fixed asset listing that includes detailed item description, serial number, date of purchase, and acquisition costs, and conduct an inventory of fixed assets to ensure that all fixed assets are accounted for at least annually.

Agency Proposed FCAP: *All fixed assets with an acquisition cost of \$5,000 or more will be capitalized. All fixed asset purchases will be approved by Luvlee's Board of Directors. Luvlee's management will prepare a fixed asset listing that includes item description, serial number, date of purchase, acquisition cost, and sources of funding. An inventory of fixed assets will be conducted annually to ensure all fixed assets are accounted for and maintained in proper working order. Luvlee's currently has zero fixed assets value at \$5,000 or higher.*

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

11. Luvlee's management revise the year-to-date amounts on the July 1, 2009 through December 31, 2009 Semi-Annual Expenditure Report and resubmit the report to DCFS.

Agency Proposed FCAP: *On February 15, 2011 submitted a revised 2009 Semi-Annual Expenditure Report was submitted to DCFS.*

DCFS Response: DCFS accepts the agency's response.

